



UNITED-GUARDIAN, INC.

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GUARDIAN LABORATORIES

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Second Quarter 2022 Report to Stockholders

August 19, 2022

Dear Stockholder:

While the second quarter was another profitable one for us, there were a number of factors that impacted our earnings for the quarter and for the first six months of the year. Sales for the six-month period ended June 30th increased by 6% over last year, and sales for the second quarter were comparable to what they were in the second quarter of last year. Our net income on those sales, however, was lower than last year as a result of two key factors.

The first was the significant increase in raw material and shipping costs this year, which we believe was due, at least partially, to the continuing impact of the coronavirus pandemic on the global economy. The second factor, which had nothing to do with the day-to-day operations of the company but which nevertheless had a significant impact on our earnings, was the continuing decline in the stock market, which reduced the market value of our investment portfolio. The impact on earnings from losses we incurred from actually *selling* some of our investment portfolio (our “realized” losses) was much smaller than the impact from the decrease in the market value of the portion of our investment portfolio that we did *not* sell and which we continue to hold (our “unrealized” losses). The accounting standard that requires that both realized *and* unrealized losses be taken into account when determining net income can cause a significant distortion in earnings, both positive and negative.

These two factors were the primary reasons why our net income was lower for the first quarter and first six months of this year even though sales were the same as, or greater than, the comparable periods last year. So while our sales for the first six months of 2022 increased from \$7,088,846 in 2021 to \$7,518,535 this year, our net income decreased from \$2,525,726 (\$0.55 per share) in 2021 to \$1,544,789 (\$0.34 per share) this year. For the second quarter, sales were virtually the same as they were in the second quarter of 2021, decreasing by less than 1% from \$3,657,978 in 2021 to \$3,626,177 this year. However, due to the combination of realized and unrealized losses related to our investment portfolio, our net income decreased from \$1,344,524 (\$0.29 per share) in 2021 to \$633,324 (\$0.14 per share) this year.

As a result of the increases we experienced in raw material and shipping costs this year, we implemented a price increase on our cosmetic and medical products, which went into effect in April and partially offset some of the raw material cost increases. We had already implemented at the end of last year a price increase on our pharmaceutical products. Going forward this will enable us to recover some of the profit margin we lost due to those higher raw material and shipping costs.

On a positive note, we were pleased that sales of our non-pharmaceutical medical products increased by 55% in this year's second quarter compared with the same quarter last year, and that sales of our pharmaceutical products increased by 8%. The increase in sales of our medical products was partially attributable to a significant increase in sales of one of our medical products to a customer in China. We have noticed an increase in inquiries for these types of products recently, and are devoting a greater percentage of our research efforts to the development of these products, in particular the water-based medical lubricants.

In addition to the development of new medical products, we are also continuing to work on a number of new ingredients for the cosmetic industry. Here is an update on just a few of those projects:

➤ **Lubrajel Oil Natural & Lubrajel Terra:** **Lubrajel Oil Natural** is a natural ingredient developed from polysaccharide polymers and film-formers. It provides slip and a silky feel to skin and hair care formulations. **Lubrajel Terra** is a complex of natural polysaccharides sourced from soil-based materials that creates a synthetic-like texture and is an excellent hydrating ingredient that can add 8 hours of hydration to skin and hair formulations. We have experienced an increase in sample requests for both products, and we are hopeful that these requests will result in increasing sales. Our marketing partners are working with both products, doing moisturizing studies and creating new serum and emulsion formulations to support their marketing efforts for these products. We expect to receive feedback from them on both of these products over the next few months.

➤ **Moisture Lock Lubrajel** is a natural active ingredient that is a hydrating agent and can be used as a replacement for hyaluronic acid. It was developed to provide 24 hours of hydration, and has proved in clinical testing to be comparable to hyaluronic acid. We are in the process of discussing next steps for this product with our marketing partners.

➤ **Lubrajel II XD PF** is a preservative-free version of our Lubrajel II XD. It provides emulsion stabilization to a wide range of cosmetic formulations. Our marketing partner in China, Ashland Specialty Ingredients, is planning a promotional campaign that will include this product. They believe that the product has the potential to generate new business for us in China.

➤ **Lubrajel DV PF** is a preservative-free version of Lubrajel DV. It has a high yield value, which enables it to provide superior suspension of particles in a wide range of cosmetic formulations. We are hopeful that this new preservative-free version of the product will enable us to increase its sales.

➤ **Lubrajel MS PF** is a modified formulation of our Lubrajel MS that was developed using 1,2-hexanediol, which enabled us to create a preservative-free version of this product. The new product has the same excellent feel as our original Lubrajel MS, but can now be used in preservative-free cosmetic formulations.

➤ We are working with Azelis, our marketing partner in the United Kingdom, to develop a **natural hair ingredient** that would be an alternative to PVP (short for "polyvinylpyrrolidone", one of

the primary ingredients used in hairstyling products to hold hair in place). This ingredient currently utilizes a polysaccharide complex to provide hold and curl retention in hair care formulations. This project is in the preliminary stages of development.

➤ We are also investigating the feasibility of developing an acrylate alternative based on protein polymers, which would expand our line of biodegradable cosmetic ingredients. The goal would be to provide acrylate-like product characteristics, such as hydration and slip, without using acrylates, which is something that is attractive to many formulators. This would provide customers with new formulation options, and would appeal particularly to customers interested in improved biodegradability and sustainability. As with the natural hair ingredient, this product is in an early stage of development.

We are continuing to deal with the lingering impact that the coronavirus pandemic has had on our business, and are working with our global marketing partners to adapt our products to the changing needs of the marketplace. While some factors beyond our control have impacted our earnings, we are confident that we will be able to continue to develop new and exciting products for the cosmetic ingredient market, and to formulate new medical products for our growing medical product business. We will also continue to closely monitor our costs to make sure that we can maintain, as much as possible, the appropriate profit margins on our products. To date we have weathered the coronavirus pandemic well, and I am confident that we can continue to do so.

I would like to end this report on a personal note. This will probably be my last report to you, since I will be retiring soon and it will most likely be my successor who will be reporting the third quarter results. Our Board of Directors has been actively working with executive recruiters for the past few months, and I am hopeful that we will soon be in a position to hire my replacement. Until then, I will continue to work with all the capable and dedicated employees at United-Guardian to ensure that our operations continue to run smoothly during this transition period. Even after my successor is in place I will continue to make myself available to assist our management team in any way I can. I am confident that the Board will bring in someone they feel is not only capable of taking over my current responsibilities, but who will also bring to the job a fresh perspective, new skills, and the motivation necessary to enable our company to grow.

During my 39 years with the company I have done my best to continue the work that my uncle, Alfred R. Globus, started 80 years ago. I will always cherish the time I have spent here, working with so many dedicated and caring people, many of whom have spent most, if not all, of their working lives and careers here, and are like family to me. I have also been lucky enough over the years to get to know some of our stockholders, and I know that some of you have been stockholders of ours for decades. I would like to thank all of our stockholders for the confidence you have shown in me over the years, and for your loyalty to our company. I wish you all the best.

Sincerely,

UNITED-GUARDIAN, INC.



Ken Globus
President

**FINANCIAL RESULTS FOR THE THREE AND
SIX MONTHS ENDED JUNE 30, 2022 AND JUNE 30, 2021**

STATEMENTS OF INCOME

(unaudited)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Net sales	\$ <u>3,626,177</u>	\$ <u>3,657,978</u>	\$ <u>7,518,535</u>	\$ <u>7,088,846</u>
Costs and expenses:				
Cost of sales	1,693,753	1,499,390	3,403,870	2,860,403
Operating expenses	620,229	513,012	1,166,978	970,139
Research and development expense	<u>112,266</u>	<u>130,025</u>	<u>243,932</u>	<u>218,311</u>
Total costs and expenses	<u>2,426,248</u>	<u>2,142,427</u>	<u>4,814,780</u>	<u>4,048,853</u>
Income from operations	<u>1,199,929</u>	<u>1,515,551</u>	<u>2,703,755</u>	<u>3,039,993</u>
Other (expense) income:				
Investment income	58,860	45,640	99,410	85,400
Net (loss) gain on marketable securities	<u>(460,278)</u>	<u>137,574</u>	<u>(853,938)</u>	<u>65,527</u>
Total other (expense) income	<u>(401,418)</u>	<u>183,214</u>	<u>(754,528)</u>	<u>150,927</u>
Income before provision for income taxes	798,511	1,698,765	1,949,227	3,190,920
Provision for income taxes	<u>165,187</u>	<u>354,241</u>	<u>404,438</u>	<u>665,194</u>
Net income	\$ <u><u>633,324</u></u>	\$ <u><u>1,344,524</u></u>	\$ <u><u>1,544,789</u></u>	\$ <u><u>2,525,726</u></u>
Earnings per common share (basic and diluted)	\$ <u><u>0.14</u></u>	\$ <u><u>0.29</u></u>	\$ <u><u>0.34</u></u>	\$ <u><u>0.55</u></u>
Weighted average shares (basic and diluted)	<u><u>4,594,319</u></u>	<u><u>4,594,319</u></u>	<u><u>4,594,319</u></u>	<u><u>4,594,319</u></u>

BALANCE SHEETS*

(condensed)

	<u>JUNE 30,</u> <u>2022</u>	<u>DECEMBER 31,</u> <u>2021</u>
<u>ASSETS:</u>	(UNAUDITED)	(AUDITED)
Current assets	\$ 11,078,801	\$ 11,583,390
Property, plant, and equipment	7,540,753	7,528,460
Less: Accumulated depreciation	<u>6,938,109</u>	<u>6,869,598</u>
Total property, plant, and equipment, net	<u>602,644</u>	<u>658,862</u>
TOTAL ASSETS	\$ <u><u>11,681,445</u></u>	\$ <u><u>12,242,252</u></u>
<u>LIABILITIES AND STOCKHOLDERS'</u> <u>EQUITY:</u>	<u>JUNE 30,</u> <u>2022</u>	<u>DECEMBER 31,</u> <u>2021</u>
	(UNAUDITED)	(AUDITED)
Current liabilities	\$ 1,983,382	\$ 2,337,761
Deferred income taxes, net	31,903	83,222
Stockholders' equity	<u>9,666,160</u>	<u>9,821,269</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ <u><u>11,681,445</u></u>	\$ <u><u>12,242,252</u></u>

* More detailed financial information can be found in the company's Form 10-Q for the second quarter of 2022, which can be found on the company's web site at www.u-g.com.